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Jittery times for gas prices
Hurricane season puts drivers, industry on edge

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It is the calm before the storms.

The start of the hurricane season is almost upon us, an annual six-month window that will once again place at risk the supply and price of the nation's energy — not to mention lives and livelihoods.

Already, gas prices are hovering near the $3 mark, and they're about 80 cents higher than a year ago. Experts say a major storm through the Gulf of Mexico could damage the many rigs and refineries in its path, squeezing supplies and sending prices higher.

"From New Orleans — really from Mississippi all the way to Houston — is a target-rich environment; you just about can't swing a dead cat without hitting a refinery," said economist James Williams of WTRG Economics, an energy consulting and research company. "That is where the refineries are, and that is unfortunately where the hurricanes tend to go."

Coast residents know how vulnerable they are, but for the traders who set prices, last year's storms helped forge a psychology in which betting on higher prices is safer than gambling that they will go down.

Hurricanes the past few years have come more frequently and with more intensity than in decades past. Scientists on Colorado State University's storm-forecasting team say they expect this year to be above average in hurricane activity, but less active than 2005. That means, they say, nine hurricanes, five of them Category 3 or higher.

On Monday, the National Oceanic and Atmospheric Administration predicted an "active" hurricane season with up to 10 hurricanes — four to six becoming "major" storms.

The more intense the storm, the more dangerous, of course. Warmer waters in the Gulf of Mexico provide more powerful fuel to storms as they cruise in from the open Atlantic.

Last year, Hurricane Katrina killed hundreds and sowed economic chaos as it slammed through the heart of America's energy industry, upending rigs, pounding refineries and shutting down pipelines.

The battering from Katrina and later Rita shut down more than 20 percent of the nation's oil production and gasoline refining.

Oil prices rose, but gas prices spiked even higher. Supplies were tight, deliveries were erratic. In metro Atlanta, many stations ran out of fuel and pump prices blew past $3 a gallon.

The Southeast received shipments of gasoline from Europe, and the Gulf Coast infrastructure gradually recovered. Gas prices slid slowly through the fall.

Normality returned — albeit at a higher altitude.

This year's hurricane season — and summer driving season — begins with virtually all the refineries back in service and pumping at ever-higher capacity. With inventories of gasoline growing, pump prices should not rise much; they might even dip.

Yet about 324,000 barrels a day of oil production is still offline, according to the U.S. Minerals Management Service.

Some damage will never be repaired, especially the smaller rigs that had been pumping from mostly depleted pools of oil. For many companies, the huge expense of fixing those rigs is better spent somewhere else.

As bad as it was, it could have been much worse.

Hurricane Rita, for example, swerved as it slammed into the land — delivering just a glancing blow to several giant refineries. Hurricane Katrina weakened as it roared toward New Orleans.

And neither storm did serious damage to the nation's Strategic Petroleum Reserve, 689 million barrels of oil meant to give the nation backup energy in an emergency.

In a worst-case scenario, a storm would shut down the reserve when current production is down or when shipments from overseas have been disrupted due to a geopolitical crisis.

"It is only a matter of luck, and in retrospect, we were lucky," said Gal Luft, executive director of the Institute for the Analysis of Global Security in Washington. "The destruction last year made everyone realize how vulnerable we are."

Futures market sets tone

While storm paths are hard to foresee, the path of prices is easier to predict: If a storm heads for oil country in the Gulf — or even threatens to — they will go up.

That is because oil and gasoline prices are generally set in the futures market as traders try to guess what the market will look like in coming months. Any potential disruption to supply sends prices higher.

"You can be sure that some hurricanes will enter the Gulf, that the platforms will be evacuated to protect the people who work on them, that they will probably come back, and that the futures market will overreact to all of it," Williams said. "I think you can expect a lot of price volatility every time there's a hurricane."

Even when there are ample supplies, higher prices add costs to millions of transactions, cutting into consumer spending on other items. Food brought by truck costs more. So does commuting — the idea of suburbs depends on affordable fuel.

Some help for consumers could come because the bad memories are so fresh, said economist Ujjayant Chakravorty at the University of Central Florida.

"There will be quicker action on the part of the government," he said. Extra fuel could be freed up from the nation's reserve, while environmental restrictions could be eased. "That will have a downward effect on prices."

Consumers may also affect prices. Drivers may recall post-Katrina problems — when many stations ran low on gasoline — and start topping off their tanks, he said. "If you see a rush to stock up, that will push prices up."

The economy has largely defied the pessimists, mostly cruising on through higher energy costs. But the slowest growth since 2002 came at the end of last year, sluggishness pegged to the spike in energy prices.

The economy recovered quickly. But should prices spike again this summer, the economy's momentum may again be tested.

Long-term effects

What really made Katrina and Rita damaging economically was not the brief shutdown but the lingering effects. Refineries were shuttered and damaged. Rigs and platforms were destroyed. And many workers were absent as they coped with family problems or demolished homes.

It didn't happen because the industry had ignored the danger, Williams said. "There is not a lot you can do. You can't pick your refinery up and move it to Iowa."

Still, last year's storms were unexpectedly bad, said Cindy Gordon, refinery issues manager for the American Petroleum Institute.

"It is a resourceful industry, she said. "But what occurred last year was a 1-in-100-year event. It caused facilities to review their plans."

Protecting company property was not enough, she said. "It's not like the industry hasn't been prepared, but now you are looking at your people not having homes, your headquarters offices being destroyed, the damage to technology and [connections to] the Internet."

There's only so much the industry can do — and it can do nothing to change the essential ingredients, Gordon said.

"It all depends on the path of hurricanes and their wind speed."

Global unrest

The higher gas prices we've paid this year over last — in Atlanta, a gallon of regular averaged $2.71 on Thursday — reflect the new normal of global markets.

Oil has averaged about $63 a barrel for the past year — more than twice its price in 2003. But prices are being carried by more than hurricane winds.

Production of oil is enough to satisfy demand, but the gap between them is narrower than perhaps it has ever been. The tighter that market, the more prices react to a change or a threat.

On one hand, there is constantly growing thirst for oil, especially from the surging economies of the United States and the massive boomtown of China.

Moreover, the world increasingly depends on uncertain supplies.

Oil-producing nations Venezuela and Iran are at odds with the United States, strains that threaten a political turn of the spigot. Others — Nigeria, Chad and Iraq — are battlegrounds where insurgents target oil production and pipelines. And then there is the largest oil producer, Saudi Arabia, whose fields and refineries face the constant threat of a terrorist attack.

This summer's hurricanes just add yet another danger.